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[1](#)3. (U) CPRR Issues Interim Report

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The Council for the Promotion of Regulatory Reform (CPRR) issued its midterm report May 31, calling for liberalization of international airfares, the lowering of firewalls between banks and brokerages, streamlining the Japan External Trade Organization (JETRO), and the abolishment of the beleaguered Green Resource Agency.

The Council will seek Cabinet approval for its recommendations later this month and will use the report as the basis of the government's new three-year reform plan.

Regarding airfares, under current regulations, carriers can discount up to 70 percent of those fares approved by the International Air Transport Association (IATA). The CPRR has

proposed eliminating that limit to give airlines more freedom in setting fares and allowing for more competition in the sector. The Council has also recommended that Japan's fixed landing fees be allowed to vary according to the time of day and the level of airport congestion. Both proposals are likely to be met with fierce resistance from the Ministry of Land, Industry and Transportation.

Additionally, the Council has called for the reduction of firewalls that currently exist between banks and security firms to allow for cross-marketing of financial products. (Stay tuned for more reporting on this issue.) The Council will issue specific measures later this year after it studies foreign models and determines how best to maintain consumer protections. Perhaps anticipating the Ministry of Economic, Trade and Industry's loud outcry, the report contains muted language to suggest streamlining or downsizing JETRO's operations. No further details are available at this time.

Finally, the Council has recommended abolishing the Green Resource Agency (GRA) that has been embroiled in a bid-rigging scandal that may have been a factor in the recent suicides of Agricultural Minister Toshikatsu Matsuoka and former GRA official Shinichi Yamazaki. (ECON: Sally Behrhorst/Masumi Ono)

#### 14. (U) Upper House Member Shares Views on Reform -----

House of Councillors member and Vice Minister for Regulatory Reform, Administrative Reform, Civil Service Reform and Regional Revitalization, Yoshimasa Hayashi, shared his views on reform under the Abe Administration during a May 18 meeting with Deputy Assistant U.S. Trade Representative Michael Beeman.

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Please see Tokyo 2410 for his opinions on the July elections, the future of agricultural reform and Japan's efforts to introduce sunset clauses on all new regulations. (ECON: Sally Behrhorst)

#### 15. (U) METI to Sell Share of Japex -----

On May 29 the Ministry of Economy, Trade and Industry (METI) announced the sale of some of its shares in Japan Petroleum Exploration Co. (JAPEX), an oil production and exploration firm. METI will sell a total of 9.11 million shares, equivalent to 16 percent of JAPEX's shares, according to a Nikkei report. This will reduce METI's stake in JAPEX from just under half to about one third.

METI selected Daiwa Securities SMBC Co. and Nomura Securitas Co. to underwrite the sale in February. The sales schedule is as follows: JAPEX submitted a security notice to Kanto Local Finance Bureau on May 29. Beginning June 5, Daiwa and Nomura will contact prospective buyers to establish interest and determine the offer price, which will be fixed some time between June 8 and June 13. The public share offering will take place over two business days beginning the day after the offer price has been decided; the shares will be delivered four business days from the day the offer price is set.

According to Nikkei, the sale should net around 80 billion yen (\$658,000) for the GOJ based on JAPEX's current share price. The proceeds will be allocated to METI's Energy Policy Special Account. (ECON: Eriko Marks)

#### 16. (U) Japan and India to Cooperate on IPR -----

On May 24, Trade Minister, Akira Amari, and the Minister of Commerce and Industry of India, Kamal Nath, signed a Memorandum of Understanding (MOU) to enhance bilateral cooperation in the field of intellectual property, in terms of capacity building, human resources and public awareness programs.

This MOU is part of the follow-up to the joint statement on the Japan-India Strategic and Global Partnership that Japanese Prime Minister Shinzo Abe and Indian Prime Minister Monmohan Singh announced on December 15, 2006, in Tokyo.

In this MOU, both Ministers agreed that the Japan Patent Office and India's Office of the Controller General of Patent Designs and Trademarks will develop and implement a basic framework and concrete measures of co-operation.

To this end, the respective agencies will develop an action plan and revisit it annually in order to achieve their common targets: improving their intellectual property protection system, establishing transparent and streamlined procedures concerning intellectual property, and promoting public awareness of protection of intellectual property. (ECON: Eriko Marks)

17. (U) Decentralization Minister Pledges Support at Hokkaido Symposium  
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On May 26, the Doshusei Hokkaido Block Council, a gathering of Hokkaido-based economic entities, hosted a symposium in Sapporo to discuss proposals for local decentralization initiatives. Over 300 participants, the majority of whom were local government employees, and a large local media contingent attended the event. Yoshimi Watanabe, Japan's Minister of State for Regulatory Reform, Administrative Reform, Regional Revitalization and Regional Government (Doshusei), opened the symposium praising Hokkaido for taking the lead as Japan's first Doshusei Tokku (deregulation special zone).

He challenged Hokkaido residents to come up with bold deregulatory initiatives even if the national governmental ministries appear reluctant to relinquish their authority. Minister Watanabe also offered his services as a go-between with the ministries to help ensure Hokkaido's Doshusei movement is beneficial to locals.

Aside from this offer of support, few concrete proposals for

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decentralization came out of the symposium. Hokkaido Governor Harumi Takahashi discussed a plan to introduce daylight savings time in Hokkaido. Other speakers debated what should occur under decentralization to reduce the disparity in economic growth between Tokyo and other regions. (Sapporo: Ian Hillman/Yumi Baba)

18. (SBU) No Obvious Successor for Ag Minister  
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The suicide of Agriculture Minister Toshikatsu Matsuoka on May 28 came as a shock in Japan and the government has no obvious successor. It was the first suicide of a presiding cabinet minister since World War II. A series of corruption scandals had clouded Matsuoka's tenure since he became Agriculture minister last September.

Facing pressure from the press and opposition Democratic Party of Japan (DPJ), the minister's position looked increasingly untenable. Since his death, press reports that the LDP had instructed Matsuoka to keep silent about his financial scandals have surfaced. Another report indicated that Matsuoka, feeling heat from a DPJ corruption probe, had sought to resign but Abe told him to remain as minister.

It is unclear what the political fallout will be from the suicide coming so soon before Upper House elections in July. Matsuoka was popular among rural voters and, given the way voter clout is skewed in favor of rural areas, he figured to be a prominent part of the campaign.

Current Environment Minister Wakabayashi is filling in as interim Agriculture Minister, but the sense in Tokyo is that a successor will be named in the next few days. Sources at the Agriculture

and Trade Ministries, and JETRO, have told us, however, that there are no obvious candidates, and the decision will be a difficult one for PM Abe to make. (ECON: Nicholas Hill)

#### 9. (SBU) Matsuoka's Role in Doha Was Mixed

Most observers recognize that the Doha Trade negotiations have entered a critical phase. The suicide of Agriculture Minister Toshikatsu Matsuoka will loom large as the round draws to a conclusion -- one way or the other -- by the end of the year. Observers we talked to about Matsuoka's role in the trade round before his suicide had widely different opinions about his commitment to Doha. One point on which most agreed was that Matsuoka had credibility with Japan's protectionist-minded farmers.

If WTO members wrapped up a deal, Matsuoka would have been PM Abe's point person in selling a deal to Japan's domestic interest groups -- particularly to the farm lobby.

Matsuoka's suicide is a real blow to the Doha process, one research official connected to the Trade Ministry told us. His sources as of May 31 were indicating that the government was having serious difficulties finding somebody of Matsuoka's stature -- or, in the case of Doha, familiarity with the process. (ECON: Nicholas Hill)

#### 10. (SBU) EC Ambassador to Japan on Auto Regulation Standardization and the Weak Yen

In the key note speech at the Japanese Automobile Importer Association's annual general assembly reception in Tokyo on May 25, the European Commission Ambassador Hugh Richardson noted that the EU has pressed Japan in the EU-Japan Regulatory Reform Dialogue to apply and implement relevant UN/ECE regulations in order to further unify international automobile regulations and standards.

He also remarked that the EC has heard the concerns of the European automakers about the weak yen. The Ambassador's speech is attached below. For the EU Reform Recommendations click here. (ECON: Josh Handler)

#### 11. (SBU) METI Releases Report on Next Generation Automobile ---

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The report covers the need to improve engines, fuels, and traffic flows, including incorporating IT into the "world's most environmentally friendly automobile," and proposes development strategies for batteries, hydrogen/fuel-cell, clean diesel, and bio-fuels.)

Issued under the names of METI Minister Akira Amari; Chairman of Japan Automobile Manufacturers Association (JAMA), Fujio Cho; and President of the Petroleum Association of Japan (PAJ), Fumiaki Watari, the report became available on May 28. (Click here for Japanese version.)

A working-level official covering automobiles at the Ministry of Economy, Trade and Industry (METI) told us the report was to address new fuel efficiency technologies for automobiles to be implemented within the next five to ten years.

On the topic of fuel economy, in contrast to the Ministry of Agriculture, the official noted METI is studying a realistic introduction of bio-ethanol. He confirmed the current limit of three percent ethanol in gasoline is the result of an administrative ruling, thus a law would not have to be redone to change the level.

He said that since Tokyo Governor Ishihara banned diesels from the metropolitan region five years ago, there has been much

progress on clean diesels, which has helped METI's agenda to educate the public about new clean diesels' promise. (ECON: Josh Handler/Junko Nagahama)

¶12. (SBU) METI Auto Official on U.S.-Japan Auto Relations, Yen, US FDI, EPA  
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The same working-level METI auto official also gave us his views on the U.S.-Japan auto relationship. He stated the overall relationship is positive as it has changed from confrontation to cooperation, particularly in the areas of investment and next-generation automobile development.

The official was not too worried about the controversy over the yen while the Bush Administration is in office since, he said, there was "positive understanding," especially by the Treasury Department, noting it was mainly a concern of the manufacturing sector.

On the topic of Japanese automakers investment in the United States, the official observed that the State of Michigan had a good relationship with Japanese automakers. For example, he had seen during a recent trip to Michigan a TV commercial in which Michigan's governor appeared with a Toyota official.

Community acceptance of Japanese automakers, trainable employees, and good logistical locations for manufacturing as well as some political factors affect the decision of Japanese automakers to invest in certain regions, he said. The main concern of Japanese automakers regarding investment in the United States is the rising costs of manufacturing, particularly wages.

The official said much of his work involves automobile issues in the various EPA and FTAs being considered by Japan. He said that METI is very positive on the idea of U.S.-Japan EPA. He mentioned, however, that the concept of EPA introduced by former USTR Zoellick which described EPA/FTAs to be a tool to strengthen the strategic partnership of two countries with similar values created some confusion. The prevailing industry view of EPAs is that they are tools to simply lower tariffs. (ECON: Josh Handler/Junko Nagahama)

¶13. (U) Next-Generation Shinkansen to Start Operation  
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On May 25, Nagoya-based JR Central had a ceremonial first run of its next-generation shinkansen bullet train, the Series N700, the first few of which are set to begin operation in early July. The N700, which was jointly developed with JR West, will cut about five minutes off the travel time from Osaka to Tokyo, no small amount for a line that carries about 400,000 passengers on an average day. The N700 also consumes 19 percent less power than the current top of the line Series 700, largely due to its

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lighter weight and better aerodynamics.

Although the N700's maximum operation speed is 300 km/h, it will top out at 275 km/h on the Osaka-Tokyo route, the same as the 700.

The N700 raises its average speed, though, through faster acceleration and a body inclining system that allows it to maintain higher speeds through curves.

From a passenger standpoint, the N700 is the first all smoke-free seating shinkansen and adds electrical outlets at window seats for computers. JR Central plans to add wireless internet connectivity to the trains in spring 2009. (Nagoya: Dan Rochman)

¶14. (SBU) LDP's Sugawara Talks about Healthcare Reform  
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On May 28, LDP Representative and Parliamentary Secretary for the Ministry of Health, Labor and Welfare Isshu Sugawara spoke at an

ACCJ-sponsored lunch on Japanese healthcare reform.

Readily acknowledging the challenge Japan faces from its rapidly aging population, Sugawara demonstrated savings expected from reforms enacted in May 2006 for the period 2006-2025, projecting cuts of up to 30 percent on pension payouts, healthcare costs and welfare expenditures. Sugawara reported that a Japanese patient's financial responsibility for his or her medical care has gone from zero in 1973 to 30 percent by October 2006.

He noted that reforms slated for 2008 target so-called lifestyle-caused diseases (for example, diabetes and some cancers) with the goal of reducing them to 25 percent by 2015. During the same period the government hopes to reduce hospital stays by half; currently they average 36 days. This compares to an average stay in the United States of 6.5 days.

Sugawara also noted that beginning in April 2008 the government will establish a medical care system specifically for patients aged 75 or older and a separate financial adjustment system for those between 65 and 74. (Note: A recent Nikkei editorial argues that reducing healthcare costs by increasing patients' burden is reaching its limit and calls for increased efficiency in the healthcare system.)

Sugawara argued in favor of prohibiting the so-called mixed payment system (kongo shinryo) that would allow patients to receive medical care not covered by Japan's National Health Insurance (NHI) at the same time as care covered by NHI but pay out-of-pocket only for the non-covered portion. Currently, a patient receiving mixed care is responsible for the entire amount, including the portion normally covered by NHI. Sugawara argued that this system protects patients from the burden of excessive medical expenses and prevents special treatment in medical coverage.

Sugawara also argued that Japanese longevity is thanks to its universal healthcare coverage although other experts contend that diet is more likely the reason. (ECON: Joan Siegel)

#### 15. (U) More Hospitals to Offer Fixed-Rate Services -----

The Health Ministry has announced it will triple the number of hospitals that use a fixed-rate fee system by 2012. This would allow about 1,000 or 10 percent of Japanese hospitals to charge patients a fixed daily amount for the treatment of certain diseases. The current system tempts hospitals to prescribe unnecessary tests or drugs in order to increase income, whereas a flat-rate system sets a single treatment fee according to ailment.

One of the goals of the program is to reduce state health care costs and it should also curb patient out-of-pocket spending. An Embassy contact argued that the system remains flawed, however, because the flat rate will be charged on a per day basis rather than for the entire course of treatment or hospital stay as is the norm overseas. (ECON: Joan Siegel)

#### 16. (SBU) U.S. and Japan Set to Talk About Beef -----

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The inspection of U.S. beef slaughter houses approved for export to Japan wrapped up on May 26 with exit meetings in Omaha.

The Japanese inspectors uncovered no major problems that would make it difficult to complete the "verification" process for the deal worked out last summer to resume on a limited basis beef exports to Japan.

The Japanese auditors will prepare a report that should be ready by the end of next week. Japan and the United States are currently discussing a draft "joint statement" that would end the verification period and the current restrictive policy of inspecting each and every box of imported U.S. beef. (ECON:



Nicholas Hill)

¶17. (SBU) Beef Trade: Moving to OIE Standards  
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The United States has continued to make clear that it would like to see Japan's import procedures fall in line with international standards after the Animal Health Organization (OIE) declared U.S. beef safe earlier this month.

Before his May 28 suicide, Agriculture Minister Matsuoka told reporters that the recent OIE decision "will not lead directly to easing of import regulations." He indicated Japan's willingness to review the OIE decision and pass it on to the Food Safety Commission for a decision.

The Embassy has now passed the complete OIE dossier on U.S. beef to Japan's Health and Agriculture Ministries for review. We expect a series of experts' meetings to begin around mid-June. Any decision on easing existing restrictions on U.S. beef would have to be made by Japan's Food Safety Commission. (ECON: Nicholas Hill)

¶18. (U) Japan's "Core" Consumer Prices Down 0.1% in April, 3rd Consecutive Monthly Decline  
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Japan's nationwide "core" CPI, which excludes perishable food items, fell 0.1 percent in April from the year before, marking the third consecutive monthly decline, the Ministry of Internal Affairs and Communications (MIC) announced May 25.

This result was in line with the market consensus forecast. Overall CPI was unchanged in April from a year earlier. Also, MIC provides an alternative "core" index for nationwide consumer prices that excludes volatile items -- i.e. energy and all food prices (except alcoholic beverages), a measure that is closer to more commonly used international measures of underlying inflation. This index remained in persistent decline, as the April year on year decline was 0.2 percent. The alternative core CPI has fluctuated in the -0.2 percent to -0.8 percent range since November 2003. (FINATT: Shuya Sakurai)

¶19. (U) Evansville Mayor Leads Indiana Delegation  
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The Mayor of Evansville, Indiana, Jonathan Weinzapfel, led a 15-member delegation in Japan May 25-31, on a tour to promote economic ties.

The Evansville area in the southwestern part of the state already has substantial Japanese investment, including a \$2.8 billion Toyota plant with over 4,700 employees.

During the visit, the delegation stopped in Tochigi, just north of Tokyo, where Evansville has a sister city relationship. The delegation included two U.S. companies interested in doing more business in Japan, and working with FCS. (ECON: Nicholas Hill/FCS: John Fleming)

¶20. (U) Hakuho Promoted to Yokozuna  
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Twenty-two year old Hakuho was promoted to the rank of Yokozuna on May 30, marking the first time since 2003 that sumo has had two grand champions. The Mongolian native officially became the 69th Yokozuna after the Japan Sumo Association's unanimous vote to promote the winner of the last two Emperor's Cups. Hakuho

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resoundingly won the Tokyo bashyo with a stunning 15-0 record. This contrasts with fellow Yokozuna Asashoryu's humiliating 11-4 performance. An Embassy observer on hand for part of the tournament felt both awed by the youngster's performance and pained by a great champion's downfall.

In his victory speech, Hakuho promised to "concentrate my spirit and make every effort to pursue the way of sumo." (ECON: Sally Behrhorst)

¶21. (U) Japanese Baseball Imports  
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Daisuke Matsuzaka's record surged to 7-2 as a starter for the Boston Red Sox and Hideki Okajima's ERA plunged to 1.05 as the team's top left-handed reliever.

Okajima recorded his fourth save on May 29 as Boston won its fifth straight game to surge 14 + games up on the Yankees, with a league-best record of 36-15.

Meanwhile, Seattle Mariners' center fielder, Ichiro Suzuki, extended his hitting streak to 22 games, pushing his average to ¶333.

Kei Igawa surfaced in Scranton of the International League. The Yankees' \$46 million pick up has an 0-1 record at Scranton, with a 7.20 earned run average. (ECON: Nicholas Hill)  
SCHIEFFER